*** attorney client privileged ***
*** seeks advice of counsel ***

The problem(s):

- Value delivered to developers by Google Play is not aligned with how much developers pay
  - Some devs pay too much. Some pay too little.
  - Some categories of apps pay nothing at all. (In fact, most apps pay nothing at all)
  - The value provided from Play changes over an app's lifecycle (at the start, Play helps them a lot, but over time as they build brand, infrastructure and have already acquired a loyal core user base Play's value declines)
- The pricing (30% rev share on in app purchases) feels arbitrary and high to developers
-

A better model

Matching value delivered and value charged is the ultimate goal to ensure a long term sustainable model.

There are multiple models for achieving this end. Heavily discussed examples include:

- Auction based system where developers (the market) set the price they are willing to pay for a conversion event (an install, a transaction, etc)
- Rate card based system where Google sets a fair price for conversion events for an app or category of apps based on analysis of value delivered and our own costs

There are also different conversion events where we have an opportunity to align with developers. Apps have different dynamics and mechanics, and not all these events apply to all apps.

- In-app purchase (e.g. Gems in a game)
- Subscription to a service (e.g. monthly recurring fee for dating subscription)
- Download/Install of an app

Today, the Play Store employs both of these models (Auction system and rate card) on the above conversion events. (e.g. In Play Ads, and revenue share on payment transactions).

In the case of the Ads model, it is reasonably fair to say that the developers feel the price they are paying is fair because they set that price through the auction. However, Google is not capturing all the value delivered to these developers because Ads are a very limited portion of how the store displays results to users. As a result, many apps get a tremendous amount of free distribution.

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In the case of in-app purchases and subscriptions, it is reasonably fair to say that developers feel the price they pay is less fair over time as their app and brand becomes bigger and they have acquired their user base.

A better model would be one that takes these existing approaches and adjusts them, rigorously with data, to ensure a more sustainable value exchange.

Specifically:

In categories where in app purchasing for digital goods (subscriptions, or in app items) is present, Play could employ a per app category rate card structure (e.g. Games has a different rate than Fitness or Music).

That rate card should reflect two elements:

- As apps get large, have established user bases, and monetize effectively the value of Play goes down and thus revenue share should also go down.
- Geographic presence. The rates paid should be judged at a country by country level as opposed to globally. This solves for two problems (a) developers might be local to one country but value delivered to them declines from Play as they grow to be large and have an established user base and (b) when they expand to another country Play often adds a lot of value.

In addition to the rate card, a series of category specific, not publicly discussed, "accelerator programs" could be developed that can be layered as further rate reductions on top of the rate card structure if the developer agrees to product goals such as: integrating with relevant google platforms (Android TV, Wear, Auto, etc) and/or agreeing to simultaneously ship on Android and iOS. Thinking about and rolling out these program simultaneous to the above rate card effort is important to ensure that the value exchange is fair overall with developers.

In categories where in app purchasing and subscriptions is not relevant Play could expand the amount of acquisitions from paid units (ads) and work to integrate these results more closely with the overall consumer experience.

For example, in categories such as transportation, fitness, social media, ecommerce, and system utilities more of the browse, and categorical search experience could be influenced a CPI bid based auction. Careful attention has to be paid to include the appropriate user quality and user long term value measurements into the ranking function to ensure a good user experience is maintained.

It should be noted that not all non in-app purchase categories need to be monetized in this way. For example, a number of categories such as news, social good, and medical could remain entirely organic.

Comment [1]: Thinking back to how these app store business models took shape, back in the days of Java/ Brew games (when carriers took 50%) and even the origination of Apple's App Store, these models were set before IAP took off as a phenomenon. So the models were largely based on a more traditional retail margin mindset, and based on paid-up-front apps. The move to 30/15 on subscriptions was the first acknowledgment of a potential distinction between a "building" phase for an app's revenue base, and a "harvesting" phase.

Comment [2]: Yes -- also the team has done some good work to model the value exchange and it does show, in many cases, what the developers here are concerned about.

Comment [3]: This feels tricky to me for two reasons:
1) It's not always the case that a developer's "home country" is the country in which it has set up business operations [the fact that supercell's core business operation is in the US is an example], so it feels hard to generalize on this
2) We don't want to create a disincentive for developers to localize their apps for a global audience. Marketing might be easier for them in their home country, but there are additional product development and localization costs when going global. ...

Comment [4]: Sorry, I think I'm not being clear about this ... what I mean is it will be difficult if there are tiers like $100M/yr. rev = 30% $500M = 25% , $1B = 20% -- the 20% tier is ever only achievable by the largest, most global devs -- which doesn't seem to make the value equati ...

Comment [5]: Oh, I see. This is another reason why a step-down model based on revenue thresholds is hard... and why time-based feels easier. But in a time-based model it's worth thinking about whether the clock is measured per market vs. globally (i.e., if an a ...

Comment [6]: is the reason we're not talking time-based on user acquisition date, that this is too complex? UA date would seem to be the most fair and is geography/re-acquisition independent.

Comment [7]: based on sameer's answer - focus is on per - app revenue in a market. we continue to be incentivized to drive expansion

Comment [8]: rate card would vary country too. e.g. samsung adds ton of value in KR, and we could acknowledge through rate

Comment [9]: I like the UA date approach and it seems to mitigate the issue of different launch dates for different markets -- also is consistent with the approach on subscriptions. Still not sure I fully understand what "rate card" means - - sounds complicated.

Comment [10]: If the goal is to align to developer perception of value, and the value of Play to them over time is the issue (regardless of size) wouldn't the time element be a better proxy.
...

Tactical steps to get there

There are a number of key questions to answer to validate the above model and approach.

- A standard way of measuring the value delivered by Play to developers.
- Models of what value Play is delivering to developers in each major category
- An analysis of what rate card structure would, therefore, be appropriate for in-app purchase categories including thresholds for stepped down rates for overall revenue size by country.
- The creation of appropriate accelerator programs for key categories and articulation of the 'gives' and 'gets' for each of these programs
- Analysis and product planning regarding increase the integration of ads into non in-app purchase categories -- including draft mocks of what this would feel like, modeling of monetization and quality/LTV components that should be included to ensure a good user experience
- Financial analysis of all of the above, put together, to understand the overall impact on the Play P&L and business over the next 5-years.
- A discussion with Hal Varian and his team regarding the above approach and whether there are better / alternative ways to think about the value equation with developers

Comment [11]: We have a version of this -- but the model is very simplistic and does not factor in all the sources of value we deliver to the developer.

We need to assemble the right team here. Biz ops + PaulG's team?

Comment [12]: One of the work streams of Magical Bridge is to quantify these. I think this workstream may already be in flight.

Comment [13]: we need to look at the spectrum of developers to which we have negative value exchange (e.g. spotify/netflix/fb) and figure out how to value them (e.g. the traffic they drive or xsells).

Comment [14]: may need to think about split by device/platform. e.g. netflix is cutting a deal on sabrina, unlikely to spill into mobile.